Thembisile Hani Local Municipality
Annual Financial Statements
for the year ended 30 June, 2012

General Information

Mayoral committee	
Executive Mayor	Clr NJ Mahlangu
Councillors	Clr PP Mojela
	Clr B Sibanyoni
	Clr S Mnguni
	Clr JJ Tau
	Clr LM Tshabangu
	Clr LM Mboweni
	Clr JJ Jiyane
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	MS Makgaba
Accounting Officer	JI Sindane
Registered office	24 Kwaggafontein C Opposite Police Station Kwaggafontein 3100
Postal address	Private Bag X4041 Empumalanga 3100
Bankers	First National Bank
Auditors	Auditor-General

Index

The reports and statements set out below comprise the annual financial statements presented to the council:

Index	Page
Accounting Officer's Responsibilities and Approval	3
Accounting Officer's Report	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Accounting Policies	9 - 19
Notes to the Annual Financial Statements	20 - 33

The following supplementary information does not form part of the annual financial statements and is unaudited:

Detailed Income statement	34

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General of South Africa are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Equitable Share for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Provincial Treasury has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General of South Africa are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the Auditor General of South Africa and their report is presented on page 4.

The annual financial statements set out on pages 4 to 34, which have been prepared on the going concern basis, were approved by the accounting officer on 31 May, 2011 and were signed on its behalf by:

JI Sindane
Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June, 2012.

1. Review of activities

Main business and operations

The municipality is engaged in municipal services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Thembisile Hani Local Municipality

Annual Financial Statements for the year ended 30 June, 2012

Statement of Financial Position

Figures in Rand	Notes	2012	2011
Assets			
Current Assets			
Trade and other receivables	5	60,185,752	16,071,271
VAT receivable	6	5,607,488	6,294,052
Cash and cash equivalents	7	72,682,096	84,584,233
Total Current Assets		**138,475,336**	**106,949,556**
Non-Current Assets			
Property, plant and equipment	3	2,584,994,537	3,246,605,156
Intangible assets	4	270,013,710	270,013,710
Total Non-Current Assets		**2,855,008,247**	**3,516,618,866**
Total Assets		**2,993,483,583**	**3,623,568,422**
Liabilities			
Current Liabilities			
Trade and other payables	10	46,649,526	14,596,181
Unspent conditional grants	8	43,708,068	49,419,642
Total Current Liabilities		**90,357,594**	**64,015,823**
Non-Current Liabilities			
Provisions	9	8,617,991	8,626,160
Total Non-Current Liabilities		**8,617,991**	**8,626,160**
Total Liabilities		**98,975,585**	**72,641,983**
Total Net Assets		**2,894,507,998**	**3,550,926,439**
Net Assets			
Accumulated surplus		2,894,507,998	3,550,926,439

Statement of Financial Performance

Figures in Rand	Notes	2012	2011
Revenue	11	342,137,846	287,581,981
Other income		2,206,191	4,133,710
Operating expenses		(1,018,990,327)	(1,005,456,556)
Operating deficit	15	**(674,646,290)**	**(713,740,865)**
Investment revenue	18	18,227,854	13,448,328
Deficit for the year		**(656,418,436)**	**(700,292,537)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July, 2010	**4,251,218,976**	**4,251,218,976**
Changes in net assets		
Restated profit for the year	(700,292,537)	(700,292,537)
Total changes	(700,292,537)	(700,292,537)
Balance at 01 July, 2011	**3,550,926,434**	**3,550,926,434**
Changes in net assets		
Surplus for the year	(656,418,436)	(656,418,436)
Total changes	(656,418,436)	(656,418,436)
Balance at 30 June, 2012	**2,894,507,998**	**2,894,507,998**

Note(s)

Cash Flow Statement

Figures in Rand	Notes	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		44,813,745	751,417
Grants		297,324,101	251,979,353
Interest income		5,319,396	4,168,740
Other receipts		2,206,191	1,979,303
Total receipts		349,663,433	258,878,813
Payments			
Employee costs		65,304,976	(58,417,211)
Suppliers		(336,039,688)	(123,733,604)
Total payments		(270,734,712)	(182,150,815)
Undefined difference compared to the cash generated from operations note		**2**	**-**
Net cash flows from operating activities	22	**78,928,723**	**76,727,998**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(91,269,456)	(44,474,615)
Proceeds from sale of property, plant and equipment	3	438,596	-
Net cash flows from investing activities		**(90,830,860)**	**(44,474,615)**
Net increase/(decrease) in cash and cash equivalents		**(11,902,137)**	**32,253,383**
Cash and cash equivalents at the beginning of the year		84,584,233	52,330,850
Cash and cash equivalents at the end of the year	7	**72,682,096**	**84,584,233**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 9 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment are not yet depreciated as the municipality has applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and useful lives of all assets. Expertise of a service provider was sourced to assist with the process.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	N/A
Buildings	30
Infrastructure	
• Roads and paving	10 - 15
• Pedestrian malls	30
• Electricity	20
• Water	20
• Sewerage	20

Accounting Policies

1.2 Property, plant and equipment (continued)

Community	
• Buildings	30
• Recreational facilities	30
• Security - fencing	3
• Halls	30
• Libraries	30
• Parks and gardens	30
Other assets	
• Buildings	30
• Specialised vehicles	5 - 7
• Other vehicles	5
• Office equipment	5
• Furniture and fittings	5 - 7
• Bins and containers	10
• Specialised plant and equipment	7
• Other items of plant and equipment	5
• Landfill sites	N/A
• Quarries	N/A
• Emergency equipment	7
• Computer equipment	3 - 5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.2 Property, plant and equipment (continued)

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June, 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

Accounting Policies

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Accounting Policies

1.4 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.4 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality’s continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

1.5 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Consumable stores

Consumable stores are initially measured at cost except where consumable stores are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently consumable stores are measured at the lower of cost and net realisable value.

Consumable stores are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of consumable stores comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the consumable stores to their present location and condition.

The cost of consumable stores of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of consumable stores is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all consumable stores having a similar nature and use to the municipality.

1.6 Consumable stores (continued)

When consumable stores are sold, the carrying amounts of those consumable stores are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of consumable stores to net realisable value or current replacement cost and all losses of consumable stores are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of consumable stores, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of consumable stores recognised as an expense in the period in which the reversal occurs.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.8 Revenue

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value added taxation.

1.9 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

1.10 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.11 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Accounting Policies

1.12 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.15 Conditional grants receipts

Revenue received from conditional grants and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.16 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.17 Donations and subsidy receipts

Income from donations and subidies is recognised as income on receipt.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	5,883,865	-	5,883,865	5,883,865	-	5,883,865
Buildings	60,765,250	(16,805,700)	43,959,550	59,550,545	(14,376,290)	45,174,255
Plant and machinery	17,449,268	(6,944,293)	10,504,975	17,449,268	(5,768,228)	11,681,040
Furniture and fixtures	3,708,499	(2,418,823)	1,289,676	3,708,499	(1,829,117)	1,879,382
Motor vehicles	19,045,452	(14,224,404)	4,821,048	19,045,452	(10,422,185)	8,623,267
Office equipment	527,922	(493,520)	34,402	205,251	(133,227)	72,024
IT equipment	4,801,909	(1,332,522)	3,469,387	3,578,391	(1,332,522)	2,245,869
Infrastructure	9,716,984,242	7,325,366,917)	2,391,617,325	9,660,818,760	6,582,260,412)	3,078,558,348
Community	93,898,491	(30,179,706)	63,718,785	95,776,630	(29,853,808)	65,922,822
Assets under construction	59,695,524	-	59,695,524	26,564,284	-	26,564,284
Total	**,982,760,422**	**,397,765,885)**	**,584,994,537**	**,892,580,945**	**,645,975,789)**	**,246,605,156**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Depreciation	Total
Land	5,883,865	-	-	-	5,883,865
Buildings	45,174,255	-	-	(1,214,705)	43,959,550
Plant and machinery	11,681,040	-	-	(1,176,065)	10,504,975
Furniture and fixtures	1,879,382	-	-	(589,706)	1,289,676
Motor vehicles	8,623,267	-	-	(3,802,219)	4,821,048
Office equipment	72,024	-	-	(37,622)	34,402
IT equipment	2,245,869	1,972,734	-	(749,216)	3,469,387
Infrastructure	3,078,558,348	45,315,787	10,849,695	(743,106,505)	2,391,617,325
Community	65,922,822	-	-	(2,204,037)	63,718,785
Assets under construction	26,564,284	43,980,935	(10,849,695)	-	59,695,524
	,246,605,156	**91,269,456**	**-**	**(752,880,075)**	**,584,994,537**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers	Depreciation	Total
Land	5,883,865	-	-	-	5,883,865
Buildings	46,388,960	-	-	(1,214,705)	45,174,255
Plant and machinery	14,476,780	-	-	(2,795,740)	11,681,040
Furniture and fixtures	2,241,577	199,818	-	(562,013)	1,879,382
Motor vehicles	10,410,249	2,024,100	-	(3,811,082)	8,623,267
Office equipment	205,251	-	-	(133,227)	72,024
IT equipment	1,014,185	1,724,426	-	(492,742)	2,245,869
Infrastructure	3,798,501,608	16,276,368	6,886,877	(743,106,505)	3,078,558,348
Community	67,871,061	191,980	-	(2,140,219)	65,922,822
Assets under construction	8,901,582	24,549,579	(6,886,877)	-	26,564,284
	3,955,895,118	**44,966,271**	**-**	**(754,256,233)**	**3,246,605,156**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain property, plant and equipment with a carrying value of R 110,736,224 (2011: R -) was recognised at provisional amounts. Thembisile Hani Local Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, in terms of Directive 4 issued in March 2009, with respect to the measurement of property, plant and equipment as set out in paragraph 73 to 83. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

	2012	2011
Land	-	3
Buildings	-	6,681,221
Plant and machinery	-	17,449,268
Furniture and fixtures	-	3,708,499
Motor vehicles	-	19,045,452
Office equipment	-	527,922
IT equipment	-	3,578,391
Infrastructure	-	31,311,482
Community	-	1,869,702
Assets under construction	-	26,564,284

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The municipality has sourced the service of a credible service provider which will assist in determining the valuation of Property, plant and equipment.

The date at which full compliance with GRAP 17 is expected, is 30 June, 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Figures in Rand	2012	2011

4. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Land and Servitudes	270,013,710	-	270,013,710	270,013,710	-	270,013,710

Reconciliation of intangible assets - 2012

	Opening balance	Total
Land and Servitudes	270,013,710	270,013,710

Reconciliation of intangible assets - 2011

	Opening balance	Total
Land and Servitudes	270,013,710	270,013,710

5. Trade and other receivables

	2012	2011
Trade debtors	173,289,697	126,117,770
Less provision for bad debts	(134,880,183)	(125,874,125)
Total net trade debtors	38,409,514	243,645
Other debtors	21,776,237	15,827,626
	60,185,752	**16,071,271**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June, 2012, R - (2011: R 243,645) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2012	2011
1 month past due	-	101,412
2 months past due	-	13,767
3 months past due	-	128,466

Trade and other receivables impaired

As of 30 June, 2012, trade and other receivables of R - (2011: R 126,117,770) were impaired and provided for.

The amount of the provision was R 125,874,125 as of 30 June, 2012 (2011: R 125,874,125).

	2012	2011
3 to 6 months	-	1,125,652
Over 6 months	-	124,748,473

Reconciliation of provision for impairment of trade and other receivables

	2012	2011
Opening balance	163,536,025	125,874,125
Provision for impairment	-	37,661,900
	163,536,025	**163,536,025**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. VAT receivable

VAT	5,607,488	6,294,052

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,000	5,000
Bank balances	50,845,576	36,665,161
Short-term deposits	21,831,520	47,914,072
	72,682,096	**84,584,233**

The municipality have issued cheques and received cash to the net value of R 10,549,375 (2011: R 7,776,425) which have not yet gone through the primary bank account as detailed below.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2012	30 June, 2011	30 June, 2010	30 June, 2012	30 June, 2011	30 June, 2010
First National Bank - Current Account - 620-262-96427	34,592,911	49,065,921	52,322,863	34,516,546	34,516,546	44,546,438
First National Bank - Call Deposit - 621-470-52427	1,609,149	1,609,149	1,527,722	1,609,149	1,609,149	1,527,722
ABSA BANK - Current Account - 407-299-1043	-	-	4,089,990	-	-	4,089,990
ABSA Bank - Call Account - 908-006-3497	-	-	33,061	-	-	33,061
Capitec Bank - Current Account - 117-301-4177	2,148,615	2,148,615	1,478,212	2,148,615	2,148,615	1,478,212
Nedbank - Call Deposit - 037-881-5279-27000001	-	650,427	650,427	-	650,427	650,427
Investec Bank - Account Type - 110-0463-500450	46,304,924	46,304,924	-	46,304,924	46,304,924	-
Absa Bank - Call Deposit - 206-847-1552	-	-	5,000,000	-	-	5,000,000
Nedbank - Current Account	19,094,682	-	-	19,094,682	-	-
Total	**103,750,281**	**99,779,036**	**65,102,275**	**103,673,916**	**85,229,661**	**57,325,850**

8. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG grant	40,796,300	47,990,019
International Electric Grant	1,362,526	-
MSIG grant	157,662	326,043
EPWP	1,391,580	1,103,580
	43,708,068	**49,419,642**

Movement during the year

Balance at the beginning of the year	49,419,642	73,148,128
Additions during the year	92,796,526	79,047,000
Income recognition during the year	(98,508,100)	(102,775,486)
	43,708,068	**49,419,642**

Figures in Rand	2012	2011

8. Unspent conditional grants (continued)

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

9. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	8,626,160	(8,169)	8,617,991

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	8,511,798	114,362	8,626,160

The municipality has 2 dumping sites, one in Kgwaggafontein which is 3,5 hectares and the other one in Kwamhlanga which is 5.4 hectares.

The rehabilitation cost estimate was based on the rehabilitation cost per square meter as applicable to other similar municipalities and adjusted for inflation.

The dumping site provision represents management's best estimate of the municipality's liability to restore the dumping site.

10. Trade and other payables

	2012	2011
Other creditors	192,189	844,037
Retentions	11,725,020	5,122,605
Accrued leave pay	3,830,594	2,632,772
Income collected on behalf of PRODIBA	1,752,695	1,353,772
Accrued expenses	29,051,904	4,570,787
Other deposits	97,124	72,208
	46,649,526	**14,596,181**

11. Revenue

	2012	2011
Property rates	6,535,187	3,394,967
Service charges	32,702,216	28,646,786
Rental of facilities & equipment	335,487	353,298
Fines	44,724	72,140
Licences and permits	5,196,131	6,225,601
Government grants & subsidies	297,324,101	248,889,189
	342,137,846	**287,581,981**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	32,702,216	28,646,786
Rental of facilities & equipment	335,487	353,298
Licences and permits	5,196,131	6,225,601
	38,233,834	**35,225,685**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates and traffic fines		
Property rates	6,535,187	3,394,967
Fines	44,724	72,140
Grant income		
Grant receipts	297,324,101	248,889,189
	303,904,012	**252,356,296**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Government grants and subsidies

Equitable share	191,831,000	172,932,353
MSIG grant	958,382	423,957
MIG grant	96,299,719	63,311,255
Water subsidy	6,985,000	7,917,000
International electric grant	-	216,718
FMG grant	1,250,000	3,301,814
EPWP	-	105,420
Nkangala District Municipality	-	680,672
	297,324,101	**248,889,189**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2011: R -), which is funded from the grant.

MIG grant

Balance unspent at beginning of year	47,990,019	37,213,274
Current-year receipts	89,106,000	74,088,000
Conditions met - transferred to revenue	(96,299,719)	(63,311,255)
	40,796,300	**47,990,019**

Conditions still to be met - remain liabilities (see note 8).

FMG grant

Balance unspent at beginning of year	-	301,814
Current-year receipts	1,250,000	3,000,000
Conditions met - transferred to revenue	(1,250,000)	(3,301,814)
	-	**-**

International electric grant

Balance unspent at beginning of year	-	216,718
Current-year receipts	1,060,526	-
Conditions met - transferred to revenue	302,000	(216,718)
	1,362,526	**-**

MSIG grant

Balance unspent at beginning of year	326,043	-
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(958,381)	(423,957)
	157,662	**326,043**

Conditions still to be met - remain liabilities (see note 8).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Government grants and subsidies (continued)

EPWP

Balance unspent at beginning of year	1,103,580	-
Current-year receipts	288,000	1,209,000
Conditions met - transferred to revenue	-	(105,420)
	1,391,580	**1,103,580**

Conditions still to be met - remain liabilities (see note 8).

Nkangala District Municipality

Balance unspent at beginning of year	-	680,672
Conditions met - transferred to revenue	-	(680,672)
	-	**-**

13. Other income

Other income	1,767,595	4,133,710

The amount included in other revenue arising from exchanges of goods or services are as follows:		
Application for tender documents	-	398,358
Sale of houses	-	129,568
Sale of stands	-	225,342
Septic Tank Fees	-	168,107
	-	**921,375**

The amount included in other revenue arising from non-exchange transactions is as follows:		
Donated assets		
Deemed income from donated assets	-	2,154,407

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

14. General expenses

Auditors remuneration	1,411,155	1,916,491
Provision for rehabilitation of dumping site	-	114,362
Consulting and professional fees	1,211,020	3,234,648
Prodiba	-	1,027,850
Insurance	1,429,993	983,115
Sanitation	2,210,842	19,229,963
VIP Toilets	6,488,698	2,140,838
Lease rentals on operating lease	263,686	1,022,586
Legal costs	3,745,998	1,638,492
Motor vehicle expenses	6,130,073	2,026,073
VAT recovery expenses	1,922,961	5,735,960
Valuation roll	3,095,842	1,184,211
Fuel and oil	3,471,945	1,993,346
Data cleansing - indigent register	23,399	3,241,142
Other expenses	14,639,360	7,154,824
Security (Guarding of municipal property)	10,885,192	6,872,630
Telephone and fax	2,409,796	415,252
Travel - local	1,795,198	2,422,902
Electricity and water services	5,133,983	2,429,923
Free basic water	7,069,325	6,519,015
Free basic electricity	1,991,169	2,634,937
	75,329,635	**73,938,560**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Income from controlled entities		
Interest	2,074,845	1,544,945
Operating lease charges		
Premises		
• Contractual amounts	15,755	918,259
Equipment		
• Contractual amounts	247,931	104,327
	263,686	**1,022,586**
Gain on sale of property, plant and equipment	438,596	-
Impairment loss	752,880,075	754,256,232
Employee costs	65,304,976	59,028,907

16. Employee related costs

Basic	39,033,969	35,513,096
Medical aid - company contributions	2,540,257	2,686,426
UIF	228,087	219,580
SDL	474,230	400,332
Leave pay provision charge	1,197,823	611,696
Cellphone allowances	899,855	988,799
Councillor's allowance	13,936,682	12,378,701
Post-employment benefits - Pension - Defined contribution plan	6,115,677	5,180,218
Travel, motor car, accommodation, subsistence and other allowances	-	96,000
Housing benefits and allowances	878,396	954,059
	65,304,976	**59,028,907**

Remuneration of municipal manager

Annual Remuneration	491,651	-
Car Allowance	132,299	-
		-
	623,950	**-**

Remuneration of chief finance officer

Annual Remuneration	499,193	-
Car Allowance	148,750	-
		-
	647,943	**-**

Remuneration of executive directors

Annual Remuneration	61,414,948	1,530,730
Car Allowance	281,049	170,000
Contributions to UIF, Medical and Pension Funds	-	59,342
	61,695,997	**1,760,072**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Debt impairment

Debt impairment	9,004,278	37,661,160

18. Interest income

Interest income		
Investments	2,074,845	1,544,945
Bank	3,244,551	2,623,796
Consumer debtors	12,908,458	9,279,587
	18,227,854	**13,448,328**

19. Auditors' remuneration

Fees	1,411,155	1,916,491

20. Grants and subsidies paid

Other subsidies		
Grant expenditure	3,580,391	809,998

21. Bulk purchases

Water	92,475,187	75,180,534

22. Cash generated from operations

Deficit	(656,418,436)	(700,292,537)
Adjustments for:		
Impairment loss	752,880,075	754,256,232
Loss on sale of assets and liabilities	(438,596)	-
Debt impairment	9,004,278	37,661,160
Movements in provisions	(8,169)	114,362
Provision for leave	-	1,662,752
Income raised on donated assets	-	(2,154,407)
Changes in working capital:		
Trade and other receivables	(44,114,480)	(2,117,568)
Consumer debtors	(9,004,278)	(37,661,160)
Trade and other payables	32,053,339	(7,777,915)
VAT	686,564	22,029,915
Unspent conditional grants	(5,711,574)	11,007,164
	78,928,723	**76,727,998**

23. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	43,957,994	57,579,815

24. Contingencies

The municipality is the defendent in a number of cases of which the outcome is unknown amounting to R 9,792,062..

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Fellow Municipalities	Kungwini Local Municipality
	Dr JS Moroka Local Municipality
	Nkgangala District Municipality
Members of key management	Councillors
	Section 57 managers

Related party balances

	2012	2011
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Dr JS Moroka Local Municipality	-	(79,727)
Kungwini Local Municipality	-	(1,935,951)

Related party transactions

	2012	2011
Purchases from (sales to) related parties		
Dr JS Moroka Local Municipality	1,435,175	1,169,029
Kungwini Local Municipality	4,840,300	20,121,515
Remuneration		
Councillors	13,936,682	1,875,867
Section 57 Managers	61,697,997	1,803,822

26. Accounting Officer and Chief Financial Officer's emoluments

Executive

2012

	Emoluments	Other benefits*	Total
JI Sindane	491,651	132,299	623,950
MS Makgaba	351,693	148,750	500,443
TG Ratau	147,500	-	147,500
	990,844	**281,049**	**1,271,893**

Figures in Rand		2012	2011

27. Prior period errors

During the prior year, the municipality performed a 100% count and valuation of property, plant and equipment in order to present an accurate asset register which resulted in the recognition of errors in the fixed assets register in prior years.

The municipality incorrectly recorded a refund from SARS as other income in the 2010 financial year.

The muncipality allocated payments and receipts relating 2009/2010 financial year which were not cleared in the bank reconciliation in that period.

The correction of the errors results in adjustments as follows:

Cash flow statement

28. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Less: Cash and cash equivalents	7	72,682,096	84,584,233
Net debt		(72,682,096)	(84,584,233)
Total equity		2,894,507,998	146,230,842
Total capital		**2,821,825,902**	**61,646,609**

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

30. Events after the reporting date

- The Technical Service Manger has resigned.
- The resignation does not have any financial impact.

31. Irregular expenditure

	2012	2011
Opening balance	60,021,977	20,522,975
Add: Irregular Expenditure - current year	3,585,498	39,499,002
Less: Amounts condoned	(39,449,002)	-
	24,158,473	**60,021,977**

Details of irregular expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Proper supply chain procedures were not followed during the procurement of the above transactions of goods and services.	An investigation where top management was involved is in progress and the outcome is not yet known.	20,522,975

Details of irregular expenditure - current year

	Action taken by the municipality	
Legal costs incurred on cases that the municipality could have avoided.	Council still to condone.	3,585,498

32. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

	2012	2011
Net deficit per the statement of financial performance	(656,418,436)	(700,292,537)

33. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

	2012	2011
Operating activities		
Actual amount as presented in the budget statement	104,291,308	-
Net cash flows from operating activities	**78,928,723**	**(13,448,327)**
Investing activities		
Actual amount as presented in the budget statement	(90,830,860)	(44,474,615)
Net cash generated from operating, investing and financing activities	**(11,902,137)**	**(57,922,942)**

Detailed Income statement

Figures in Rand		2012	2011
Revenue			
Property rates		6,535,187	3,394,967
Service charges		32,702,216	28,646,786
Rental of facilities and equipment		335,487	353,298
Fines		44,724	72,140
Licences and permits		5,196,131	6,225,601
Government grants & subsidies	12	297,324,101	248,889,189
Other income		1,767,595	4,133,710
Interest received - investment	18	18,227,854	13,448,328
Total Revenue		**362,133,295**	**305,164,019**
Expenditure			
Personnel	16	65,304,976	59,028,907
Depreciation and amortisation		752,880,075	754,256,232
Debt impairment	17	9,004,278	37,661,160
Repairs and maintenance		20,415,785	4,581,165
Bulk purchases	21	92,475,187	75,180,534
Grants and subsidies paid	20	3,580,391	809,998
General Expenses	14	75,329,635	73,938,560
Total Expenditure		**1,018,990,327**	**1,005,456,556**
Gain on disposal of assets and liabilities		438,596	-
Deficit for the year		**(656,418,436)**	**(700,292,537)**